



CITY OF LODI COUNCIL COMMUNICATION

AGENDA TITLE: Provide preliminary and non-binding policy direction regarding electric rate design/structure for future adjustment to base rates by transferring rates from Market Cost Adjustment charges to Base Rate charges, i.e. "Truing up the Electric Rates" (EUD)

MEETING DATE: December 21, 2005

PREPARED BY: Interim Electric Utility Director

RECOMMENDED ACTION: That the City Council provide preliminary policy direction to Electric Utility Department staff, which will serve as the basis for rate design, and the rate structure that will be brought to the City Council for approval at a future date.

BACKGROUND INFORMATION: The City Council approved a set of market cost adjustments (MCA's) on November 16, 2005. The MCA's approved by council became effective on December 2, 2005 and will be reflected in bills received by customers in December. As part of the MCA discussions, Council was told that Electric Department staff would return to the City Council for policy direction and guidance as part of a rate "true up" effort. This agenda item initiates that process and provides the opportunity for a fuller discussion of rate issues than could be accommodated during the MCA process given the urgency of the financial situation facing the City in November where the city was losing money on each unit of energy sold.

Issue: The Market Cost Adjustment implemented on December 2, 2005 allowed the Electric Utility to begin collecting for the significant increases in costs for bulk power. This Market Cost Adjustment addressed an increase in bulk power costs of over 38% since the last time a Market Cost Adjustment was made.

One of the key features of the Market Cost Adjustment is that it is supposed to be temporary in nature, requiring that the Electric Utility report on a quarterly basis the continued need for the Market Cost Adjustment and to recommend increases or decreases to the MCA as necessary. While the most recent MCA is entirely consistent with the intended purpose of the MCA, a permanent adjustment to electric rates, or "rate true up" is needed to reflect the fact that projected long term costs for bulk power will remain at or near levels secured through the current MCA and absent a structural adjustment to the base rate structure reflecting the more permanent increase in bulk power costs, the MCA would itself become a permanent feature of the rate structure, which is not what the MCA was intended for. The "rate true up" is intended to allow for a movement away from the current (temporary type) rate structure that relies heavily on the Market Cost Adjustment as an augmentation to base rates as the mechanism for meeting the overall revenue requirement for the utility, and instead providing for a movement to a permanent rate structure that relies on base rates as the mechanism for meeting the overall revenue requirement for the utility (e.g. "base rates" should be set to cover the expected average level of power and other costs).

APPROVED:

A handwritten signature in blue ink, appearing to read "Blair King".

Blair King, City Manager

In conjunction with the incorporation of the higher costs of bulk power into the base rate structure, this “true up” provides an opportunity to address elements of rate design that the Council or staff has previously identified as problematic, and/or which could not be addressed as part of the MCA discussions due to the short period of time under which the MCA process was undertaken. In that regard, staff has identified the following issues as benefiting from Council discussion and preliminary policy guidance prior to significant effort being expended on rate design under this “true up” effort.

Discussion:

Issues to be addressed

Staff has identified the following four rate design issues as forming the basis for additional discussion and preliminary policy direction from council:

- Relationship of Rates between Classes
- Rate Structure Complexity
- Discount Levels
- Economic Development

A couple of subsidiary issues fall out of the above major issues. These relate to the following:

- All electric rates
- Mobile Home rates

Relationship of Rates between Classes

How rate levels differ by class such that sufficient revenues can be recovered to support overall utility operations is one the thorniest issues that rate designers face and is the primary decision that underpins all other rate design issues. Differences between classes are based on a number of factors:

- Cost of Service
- Competitiveness
- Economic value
- Other Local Considerations and Preferences

In short, rate designers will a) evaluate and determine the costs imposed on the utility by each class of customer, b) assess the relative competitiveness of the rates in each class to other utilities in the area and region, c) assess the relative economic value and need of certain classes in order to assess the need for credits or discounts and d) will assess other local community attitudes, values and beliefs as they may impact on rate design considerations.

To address the first factor described above, a Cost of Services Analysis (COSA) was performed for projected 2006 and 2007 costs. The purpose of the COSA was to identify the costs of serving each class of customer in order to determine how much revenue should be collected from each class based on the cost to serve a particular class. It is staff's opinion that a band should be placed around these COSA values, meaning that the values that result from the study effort can be 15% higher or lower and still accurately reflect the cost of serving a particular class of customer. The result of the 2006 COSA is displayed below with a 15% banding around the current Lodi rates in place effective December 2, 2005.

COSA studies typically serve as the foundation for rate design. Once the total amount of revenue that needs to be collected from each class is identified, rate designers can take that revenue number and divide it by the amount of energy and capacity consumed by each rate class to come up with a rate structure that allows the appropriate level of revenue to be collected from each class. The 2006 and 2007 COSA studies referenced above, validated and reinforced the abbreviated COSA study that was used as the basis for the recently approved Market Cost Adjustments (MCA's). As a result, the rates for all

customer classes except the Mobile Homes, I1 and G5 customer classes are within the COSA bands. Therefore, the classes falling within the bands can be easily transformed into a new base structure that combines the prior base rate with the recently approved MCA because the total rate with the new MCA is within the COSA banding results.

Rate (\$/kwh)	Lodi Average under MCA	COSA 2006	Low COSA 2006	High COSA 2006	PG&E Current Average w/ True Up
EA Residential	\$0.173	\$0.150	\$0.127	\$0.173	\$0.160
ED Low Income	\$0.096	\$0.149	\$0.126	\$0.171	\$0.093
EM Mobile Home	\$0.086	\$0.149	\$0.127	\$0.171	\$0.149
G1 Small Commercial	\$0.166	\$0.143	\$0.121	\$0.164	\$0.166
G2	\$0.150	\$0.136	\$0.116	\$0.157	\$0.150
G3 Small Industrial	\$0.144	\$0.135	\$0.115	\$0.156	\$0.144
G4 Medium Industrial	\$0.123	\$0.133	\$0.113	\$0.153	\$0.123
G5 Industrial	\$0.114	\$0.134	\$0.114	\$0.155	\$0.114
I-1 Industrial	\$0.089	\$0.137	\$0.117	\$0.158	\$0.114
Contract Large	\$0.085	\$0.131	\$0.111	\$0.151	\$0.108
Contract Medium	\$0.123	\$0.138	\$0.117	\$0.159	\$0.123

The Mobile Homes, I1 and Large Contract rates on the other hand were given MCAs whose effective rates were at a level of at least 40% below Cost of Service. Mobile homes will be discussed below. The industrial rate setting reflected the short amount of time provided to these customers to review and understand the basis for the increase so as to mitigate the rate shock that would occur in moving from the old rate to a COSA based rate. It also reflected an implied economic value for these customers.

The industrial customer class has expressed to EUD staff that implementation of a rate that reflects the city's cost of service for the industrial rate class would result in a rate level that would be a retreat from the city's historical policy of incentive or economic development based rates that formed the basis for many of these customers choosing to do business in Lodi. Several industrial customers have indicated that rates at the cost of service level could cause them to have to move elsewhere or shutdown as they would force costs too high for these plants to compete. As can be seen in the table above, the current Lodi rates are extremely competitive with PG&E at the current level, would be competitive with PG&E at the low end of the COSA banding level, but are not necessarily competitive with rate levels elsewhere in the region or out of the state. As a result, these customers have also expressed an interest in understanding what Lodi's long-term rate design policy will be in order that they achieve a level of stability and predictability in their rate structure, but also to make long-term business decisions about where they will conduct business.

To assist in assessing the economic value of the industrial customer class, the third element of rate design considerations, the industrial customers have agreed to fund an economic study that will report on the value of industry to the community. The report is expected to be completed on or around December 12, 2005, but was not available for staff review at the time this staff report was prepared. This report should be reviewed and considered in the context of this element of rate design.

Lastly, local considerations and preferences must be an element of rate design. As Lodi policy makers consider the future makeup of the community and assess where subsidies, discounts or credits will be

provided, consideration should be given to the type of business or industry that fits best with Lodi's long term vision of its future. If for example, Lodi wants to continue to attract industrial types of uses that will require a subsidy or credit from cost of service in order for those types of businesses to be competitive, then staff requests that council express its policy preference as retaining the relationship between classes as found in the table above. If, on the other hand, council wants to eliminate subsidies or credits to any class or provide subsidies or credits to a different class of customers in support of different strategic goals, staff requests that council express its policy preference to either eliminate subsidies and credits over time in order to achieve rates within the cost of service band or to grandfather existing customers at some level below cost of service with new customers being subject to a rate falling within the cost of service band.

As part of the MCA process, Council made a commitment to the industrial customers that the average rates effectuated through the MCA and the rate relationships between the industrial class and the remaining classes that resulted from the MCA would not be changed for the balance of the fiscal year. Any changes that occurred after that point, were to be considered in the context of the report being commissioned by the industrial customers, further discussions of the COSA studies, and further deliberations over the strategic interests of the city. Because staff and council have not seen the report on the economic value of industry to the community, it is premature to make any recommendations on new rate design for this class of customer, however, staff requests that council express a non-binding preference through a straw vote on this issue of consensus rate differentials to either:

- a) Maintain the current rate relationships as approved through the MCA through the balance of this fiscal year contingent on further discussions of the city's strategic preferences and further discussions of the results of the economic study report commissioned by the industrial customers;
- b) Maintain the current rate relationships as approved through the MCA through the balance of this fiscal year and begin working with the city council and industrial customers on a plan to transition to a cost of service based rate.

Rate Complexity

As part of the MCA process, council expressed a concern that the tiered structure of the MCA was too complex. As part of the MCA process staff had proposed a nine tiered MCA that was intended to mimic PG&E's rate structure more closely than the base two tier structure otherwise allowed, but acknowledges that this structure is too complex. In order to address the complexity issue, staff is requesting council guidance in the following four areas:

- Residential tiering
- All Electric Rates
- Industrial Structure
- Mobile Homes

Residential Tiering

Lodi's base rate structure for residential customers includes two tiers. In contrast, PG&E's residential rate structure includes five tiers. During the last Market Cost Adjustment, staff proposed implementation of nine tiers for the residential MCA in an effort to try and get the combined two-tier base rate structure and nine tier MCA to align more closely with PG&E's five-tier rate structure. Council appropriately expressed concern in general with the complexity of this large number of tiers, but did not indicate how many tiers would be too many.

A more simplified two-tier rate structure would facilitate ease of understanding by the customer. However, the rates under this structure would not compare easily to PG&E and some customers would invariably have rates higher than PG&E and some less in order to achieve the mathematical average

being less than PG&E. If the PG&E comparison is not critical, then staff would recommend that the assigned revenue requirement for residential be recovered through base rates with a winter/summer differential and only two tiers. The MCA would be set to zero. Any future MCA's would be implemented with the same two tiers. If, on the other hand, close comparisons to PG&E are desirable, staff recommends the adoption of a structure that replicates the PG&E structure with five base tiers and any future MCA's implemented with the same five tiers.

Staff requests that council express a non-binding preference through a straw vote for either:

- Moving toward the long term objective of a rate structure similar to PG&E – five tier residential rate design; *or*
- Having as the objective average customer bills that are less than PG&E with a less complicated – two tier residential rate design

All Electric Homes

Lodi currently has approximately 600 customers on the All Electric Home Rate. These customers receive a higher allotment of energy in the first tier (585 kwhrs in the all electric vs. 440 kwhrs during the summer and 1,000 kwhrs vs. 400 kwhrs in the winter) which translates into an approximate 10% discount for 585 kwhrs of consumption during the summer and an approximate 20% discount for 1,000 kwhrs of consumption during the winter. While these discounts made some economic sense in the past, they make no sense today. In the far distant past, energy costs declined as the level of production increased. That cost relationship no longer exists. The electric utility now faces increasing costs as production increases or as new generation is utilized. Because of this new relationship, providing the all-electric home customers with a larger base level of consumption at the first tier rate requires a subsidy from the standard residential customer to the all-electric residential customer. In staff's opinion, this subsidy should be eliminated and all residential customers should be treated equally. A table showing NCPA cities with and without the all-electric rate is attached as exhibit 1.

Staff requests that council express a non-binding preference through a straw vote for either:

- a) retaining the all electric home rate schedule along with its higher allocation of first tier consumption; and
- b) eliminating the distinction between the standard residential rate class and the all electric rate class.

Industrial Structure

With respect to industrial rate design and the level of complexity that currently exists, the industrial class design has three tiers or costing periods: on-peak, off-peak and partial peak. Generally, Lodi's power costs are incurred in only two periods referred to as Heavy Load and Light Load. Therefore, a reduction to two rate periods would be justified. This would also help to facilitate revenue stability by aligning revenues more closely with cost causation.

A second element of the industrial rate design that needs to be addressed is the provision for customers that use over 1 mw of electricity to self select into either of two rate classes, the I1 rate class or the G5 rate class along with the provision of an economic stimulus credit that is extended to all customers eligible to self select into either rate class where the credit is extended without regard to performance criteria, obligations or time limits.

Staff's recommendation is to eliminate the ability for any customer to self select into a rate class along with any evergreen rate credits, replacing these credits with specific agreements, if warranted, that specify the term of the agreement, provisions for modifying the agreement and performance requirements and obligations on the part of the customer that are expected in return for the credit. This is discussed in more detail later, under economic development.

Receive Preliminary and Non-Binding Policy Direction from City Council in order to adjust base rates by transferring rates from Market Cost Adjustment Charges to Base Rate Charges – “Truing up the Electric Rates” (EUD)

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Staff requests that council express a non-binding preference through a straw vote for either:

- a) Simplifying the current industrial structure with a two period (high load hour and low load hour cost structure and eliminating the evergreen economic stimulus credit and ability to self select into a rate class, *or*
- b) Maintaining current structure.

Mobile Homes

Lodi has six mobile home parks representing approximately 490 mobile home pads. Under the mobile home rate, the mobile home park is metered at a single point, called a master meter. The owner of the mobile home park then sub-meters their individual tenants and bills those tenants directly for their energy use. The city of Lodi does not send bills for electric charges to these individual tenants, but instead has a billing relationship directly with the mobile home park owner. The above rate table (in the cost of service section) demonstrates that the Mobile Homes pay significantly less than COSA, +50%.

Unfortunately, mobile home rates tend to be particularly messy when subjected to major changes due to the unique metering and billing arrangements that exist in these master metered communities and staff recommends that it would be useful to meet with the mobile home park owners to discuss the implications of significant changes to rates prior to asking for preliminary council direction in this area. As a result, staff will not ask for preliminary council policy direction in this area and bring any recommended changes regarding mobile homes back to council at a later date.

Discounts

During council's deliberations on the market cost adjustment, council members commented that discounts were both too much and not enough. In an effort to gain further insight into the differing policy objectives of different council members, staff has assembled a list of all discounts that are currently in place in the city in an attempt to enhance the discussion on discounts and to discern whether the treatment of discounts should be differentiated in any way based on the type of discount. Below is a list of the discounts currently in effect, the total cost of those discounts and the cost per account of those discounts.

Discount Analysis

	Residential Discounts	Discount	Avg by Acct	# Accounts
EAFI	Fixed Income	\$4,606	\$51	90
EAMR	Medical	\$44,257	\$126	350
ED	SHARE (low income)	\$293,036	\$181	1,618
EDMR	SHARE Medical	\$39,470	\$256	154
EEMR	All-Electric Medical	\$360	\$90	4
EF	All-Electric SHARE (low income)	\$9,232	\$176	53
EFMR	All-Electric SHARE Medical	\$777	\$173	5
	Residential Discount Total	\$391,738		2,274
	Commercial	Discount	Avg by Acct	# Accounts
G1B	G1 Community Benefits Incentive	\$6,795	\$1,045	7
G2CB	G2 Community Benefits Incentive	\$25,272	\$5,616	5
	Commercial Discount Total	\$32,067		12
	Industrial Discounts/Credits	Discount	Avg by Acct	# Accounts
ESRC	Economic Stimulus Rate	\$801,334	\$72,849	11
	Individual Contracts	\$805,840	\$115,120	7
	Industrial Discount Total	\$1,607,174		18

Residential Discount Programs

Fixed Income

For those customers on fixed incomes below \$45,000 annually and who are over 62 years old and do not qualify for any other discount, a discount of 5% on their electric bill is available. There are currently 90 accounts receiving this discount with a total annual cost of \$4,606.

Medical Rider

Residential customers on the standard residential rate (EA), the SHARE program rate (ED) or the Mobile Home rate (EM) are entitled to an additional 500 kwhrs of electricity at a lower first tier rate under the Medical Rider Discount. To qualify for the Medical Rider, customers must demonstrate that they are either: a) dependent on life support devices used in the home, b) a paraplegic, quadriplegic or hemiplegic person having special air-conditioning needs, c) a multiple sclerosis patient having special heating or cooling needs or d) have another medical condition requiring special heating or cooling needs that would be reviewed on a case by case basis. Customers are also allowed to combine discounts if eligible for both the SHARE discount and the Medical Rider, but for the purposes of this paragraph, only the Medical discount will be discussed. There are currently 354 accounts receiving this discount with a total annual cost of \$134,032. The discount results in an approximate 8% reduction from the standard applicable rate.

SHARE

The SHARE discount is available to any customer in single family or multi family dwellings separately metered by the City of Lodi (including mobile home tenants) where the customer meets the special income requirements of the rate schedule:

Number of Persons in Household	Maximum Annual Household Income
1-2	\$22,000
3	\$25,900
4	\$31,500
Each additional person	\$5,200

There are currently 1,671 accounts receiving this discount with a total annual cost of \$397,168. The discount results in an approximate 30% reduction from the standard applicable rate.

Combined SHARE/Medical Rider

Customers eligible for either the SHARE discount or Medical Rider discount are eligible to combine the discounts. There are currently 159 accounts receiving the combined discount at a total annual cost of \$50,448. The discount results in an approximate 36% reduction from the standard applicable rate.

Residential Discount Policy Direction

For comparison purposes, staff has assembled comparisons from other NCPA cities that show the discounts and levels of discounts that are provided for each of the categories of residential discounts as Exhibit 2. Staff requests that council express a non-binding preference on residential discount programs through a straw vote to either:

- retain the existing discount programs with approximately the same level of discount applied to each program
- retain the existing discount programs with a reduced level of discount applied to each program
- retain the existing discount programs with an increased level of discount applied to each program
- eliminate the existing discount programs

Commercial Discount Programs

G1 and G2 Community Benefits Incentive Discount

Non-profit entities (as defined in Federal Internal Revenue code 501(c)(3) who are currently receiving Federal Community Development Block Grant Funds or have received such funds not more than two years before preparation of the current billing cycle charge are eligible for a 30% discount on energy and demand charges. There are a total of seven G1 accounts receiving this discount at a cost of \$6,795 and a total of five G2 accounts receiving this discount at a total cost of \$25,272. A list of the customers receiving the Community Benefits Incentive discount is attached as Exhibit 3.

Staff requests that council express a non-binding preference through a straw vote to either:

- a) retain the existing discount programs with approximately the same level of discount applied to each program
- b) retain the existing discount programs with a reduced level of discount applied to each program
- c) eliminate the existing discount programs

Economic Development

There have been a number of mechanisms employed by Lodi to attract employers into the city. Staff has been unable, however, to locate analyses that evaluated the costs and benefits of offering these mechanisms for economic development purposes. As indicated above, the industrial customers have commissioned a study that is intended to evaluate the value of industry to the community and which may assist the council in its future deliberations on economic incentives. In the absence of background materials describing the purpose and value for the various industrial credits and discounts, staff will describe the discount and the qualifying criteria.

Economic Stimulus Credit

The economic stimulus credit is provided to **all** customers in the G5 and I1 rate classes. The credit is a permanent feature of the rate. The credit provides for a \$/kWh reduction off the published rate for each kWh consumed. The credit amounts to an approximate 5% to 10% discount from the published rates. As noted above, staff recommends eliminating any evergreen discounts from the rate structure and instead incorporating any desired discounts into specific agreements with explicit end dates, modification criteria and performance obligations.

Under the Market Cost Adjustment and rate lock commitment provided to the industrial customers through the end of this fiscal year, the Economic Stimulus Credit has been effectively subsumed into the overall industrial rate reduction from cost of service. Future designs will need to determine whether this feature is explicitly retained or eliminated. For example, if industrial rates were set at a specific level below cost of service, the resulting rate differential could serve as a permanent, transparent method of valuing the economic benefit of these customers. Alternatively, the industrial rate could be set at cost of service, and only selected and qualified customers could be offered the economic development credit, in which case, an explicit rate value would need to be made available.

Individual Contracts

In the past, in order to attract customers and/or to allow customers under expiring below market contracts to transition to the published rate over a longer period of time, special agreements were put in place. The original intent was for these contracts to act as an attraction or retention tool with the expectation that they would expire on a specific date after which the customer would transition to the published rate. These contracts are largely operating as intended, with the exception that the transition rate should have been slightly higher than has turned out to be the case, and that a more detailed cost benefit analysis of

the contracts could have been undertaken. Contracts can be effective tools for economic development if used in a manner that clearly supports the strategic objectives of the city.

In order to begin sorting out the myriad of economic development options available to the city council, staff requests that council express a non-binding preference through a straw vote on the following issues:

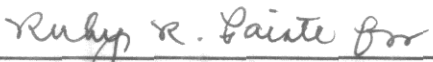
- a) a yes or no vote on whether the economic stimulus credit should be retained
- b) a yes or no vote on whether the economic stimulus credit should be limited in duration (e.g. 5 years or less)
- c) a yes or no vote on whether the economic stimulus credit should be tied to measurable and/or quantifiable returns to the community
- d) a yes or no vote on whether the economic stimulus credit should be tied to a maximum discount from Cost of Service
- e) if the answer to d is yes, a yes or no vote on whether the maximum discount from cost of service should be greater or less than 25%

Next Steps

Based on the preliminary and non-binding policy preferences expressed by city council, staff can prepare an updated rate design incorporating those preliminary policy preferences. The updated rate design will then be brought back to city council for further council and public input and deliberation.

FISCAL IMPACT:

FUNDING:


James R. Krueger, Finance Director



David Dockham
Interim Electric Utility Director

DD/lst

Attachments

Exhibit 1 - Comparison of All Electric and Mobile Home Rates

NCPA Members	All-Electric Rate	Mobile Home Rate	
Alameda	Yes	No	Residential-Master Meter
Biggs	No	No	
Gridley	No	No	
Healdsburg	Yes	No	Residential-Individual
Lompoc	Yes	No	Residential-5 Master and 2 Individual
Palo Alto	No	No	Residential-Individual
Plumas-Sierra	No	No	Commercial-Master Meter
Roseville	No	No	Residential-Individual Meter
Ukiah	Yes	No	Residential-Master Meter
Lassen Municipal	No	No	Residential-Individual
Redding	No	Yes	Residential-Master Meter
Santa Clara	No	No	Residential-Individual
Truckee Donner	No	No	Residential-Individual
Turlock	No	No	Residential-Individual

Rates as of 12/5/05

Exhibit 2 - Comparison of Low Income and Medical Discount Programs

600 kWh Average

NCPA Members	Low Income	Discount	Medical	Discount	Medical Low Income	Discount
Alameda	Yes	25%	Yes	10%	Yes	15%
Biggs	No	0%	No	0%	No	0%
Gridley	No	0%	Yes	25%	No	0%
Healdsburg	Yes		Yes			
Lompoc	No	0%	Yes	10%	No	0%
Palo Alto	Yes	20%	No	0%	No	0%
Plumas-Sierra	No	0%	No	0%	No	0%
Roseville	Yes	15%	Yes	39%	No	0%
Ukiah	Yes	\$25	Yes	10%	No	0%
Lassen Municipal	No	0%	No	0%	No	0%
Redding	No	0%	Yes	25%	No	0%
Santa Clara	Yes	25%	Yes	25%	No	0%
Truckee Donner	No	0%	No	0%	No	0%
Turlock	Yes	15%	Yes	33%	No	0%

50% on first 500 kWh per month and 15% above 500 kWh
500 kWh

50% reduction on first 500 kWh

Rates as of 12/5/05

SMUD Yes 30% Yes 30% Yes 50%

Exhibit 3 - Community Benefit Incentive Customers

Community Benefit Incentive Customers
Lodi Adopt A Child
Lodi Boys and Girls Club
Loel Foundation
Lodi House
Lodi Salvation Army
Hill House Museum

Provide Preliminary and Non-Binding Policy Direction Regarding Rate Design and Rate Structure

City Council Meeting
December 21, 2005



Overview



- **Action Tonight** – Council is requested to receive staff's report and provide preliminary and non-binding direction on one or two elements of the report:
 - Residential Complexity
 - Residential Discounts

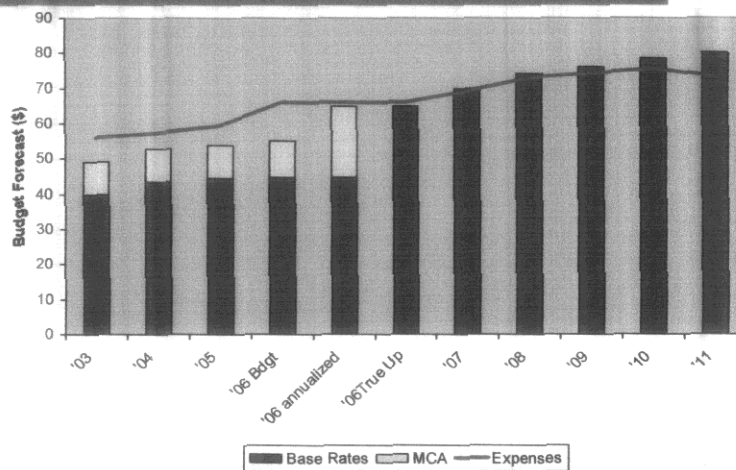


Rate True Up Issue

- Market Cost Adjustment mechanism is temporary
- Electric Department cost increases are permanent
- Need to replace the temporary MCA with a permanent Base Rate Structure



MCA to Base Rate Transformation





Goals

- Simplify the Rate Structure
- Establish Stability and Predictability
- Eliminate Uncertainty
- Eliminate Volatility
- Keep average rates under the permanent rate design equal to average rates under the recently adopted MCA



Issues to Address in Rate Design

- Relationships between Classes of Customers
- Rate Structure Complexity
- Discount Levels
- Economic Development

Over the next few weeks staff will work with Council on each of these issues



Relationship of Rates Between Classes

- Goal is to collect sufficient revenues from each class to support overall utility operations
- Factors to consider
 - Cost of Service – foundation of rate design
 - Competitiveness
 - Economic Value
 - Other Considerations and Preferences

Cost of Service and Competitiveness

Rate (\$/kwh)	Lodi Average under MCA	COSA 2006	Low COSA 2006	High COSA 2006	PG&E Current Average w/ True Up
EA Residential	\$0.173	\$0.150	\$0.127	\$0.173	\$0.160
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G4 Medium Industrial	\$0.123	\$0.133	\$0.113	\$0.153	\$0.123
G5 Industrial	\$0.114	\$0.134	\$0.114	\$0.155	\$0.114
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Contract Large	\$0.085	\$0.131	\$0.111	\$0.151	\$0.108
Contract Medium	\$0.123	\$0.138	\$0.117	\$0.159	\$0.123

Economic Value and Local Preference Factors



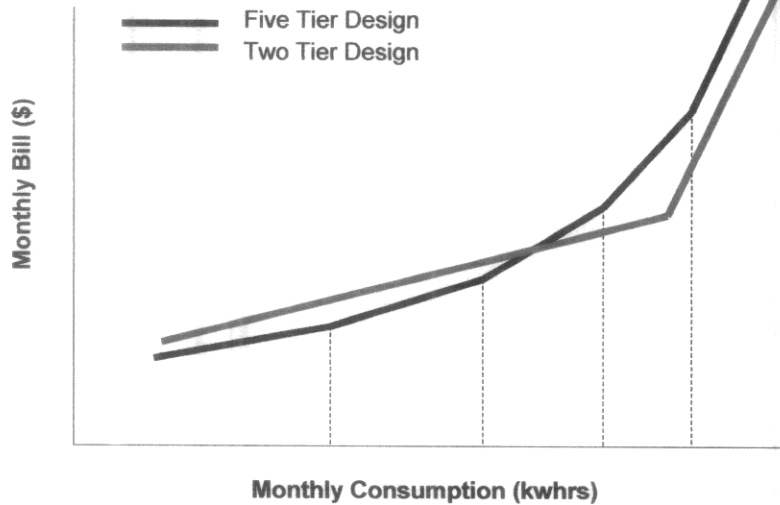
- Economic study underway through Industrial Customer working group
- Strategic choices and value judgments
 - Are subsidies essential to retain and attract
 - Do subsidized businesses fit desired profiles
 - Does the community value social programs

Detail Rate Design Features



- complexity of the current MCA tiered structure
 - PG&E uses a five tier structure
 - Lodi has two base tiers and up to nine MCA tiers
- A two tier structure is easier to understand, but makes comparisons to PG&E harder

Tier Example



Straw Vote



- Staff requests that council express a non-binding preference to either:
 - Move toward a long term objective of a rate structure similar to PG&E - a five tier residential rate design
 - Have as the long term objective that average rates are less than PG&E, with a less complicated - two tier residential rate design



All Electric Homes

- 600 customers on All Electric Home Rate
- Customers receive a higher baseline allowance
 - 585 kwhrs vs 440 kwhrs summer = 10% discount
 - 1,000 kwhrs vs 400 kwhrs winter = 20% discount
- Discounts no longer rational given utility cost structures
 - No longer decreasing costs of production
- Most agencies have eliminated distinctions



All Electric and Mobile Home Comparisons

Exhibit 1 - Comparison of All Electric and Mobile Home Rates

NCPA Members	All-Electric Rate	Mobile Home Rate	
Alameda	Yes	No	Residential-Master Meter
Biggs	No	No	
Gridley	No	No	
Healdsburg	Yes	No	Residential-Individual
Lompoc	Yes	No	Residential-5 Master and 2 Individual
Palo Alto	No	No	Residential-Individual
Plumas-Sierra	No	No	Commercial-Master Meter
Roseville	No	No	Residential-Individual Meter
Ukiah	Yes	No	Residential-Master Meter
Lassen Municipal	No	No	Residential-Individual
Redding	No	Yes	Residential-Master Meter
Santa Clara	No	No	Residential-Individual
Truckee Donner	No	No	Residential-Individual
Turlock	No	No	Residential-Individual

Rates as of 12/5/05



Straw Vote

- Staff requests that council express a non-binding preference to either:
 - Retain the all electric home rate schedule along with its higher allocation of first tier consumption, or
 - Eliminate the distinction between the standard residential class and the all electric rate class



Mobile Homes

- Lodi has six mobile home parks containing a total of 490 mobile home pads
- Parks are master metered
- Park owner bills residents
- Residents entitled to residential discounts, but no direct city billing relationship with customer
- Current rates significantly below COSA
- Need to fix over long term, but not now



Industrial Structure

- Industrial Rate Class has three tiers
 - On Peak
 - Off Peak
 - Partial Peak
- Costs are incurred in two periods
 - Heavy Load Hours
 - Light Load Hours
- Therefore a reduction to two rate periods would be justified



Industrial Structure (cont)

- Customers can self select into either of two rate classes (I1, G5)
- Economic stimulus credit is extended to all customers in both rate classes
 - Credit is evergreen
 - Credit has no performance criteria
- Staff recommends delaying any decisions on Industrial modifications until further review of the economic report can take place



Discounts

- Council expressed concerns regarding discounts
 - Too High
 - Too Low
 - Discussion was brief – didn't address all discounts
- To further discussions staff has assembled a list of all discount programs
 - Identified costs of program
 - Qualification criteria
 - Comparisons to other agencies



Residential Discounts

- Fixed Income
 - Income below \$45k/yr and over 65 yrs old
 - 5% discount
 - 90 accounts receiving the discount
 - Total annual cost of \$4,606



Residential Discounts (cont)

- **Medical Rider**
 - Eligible to customers on Standard or Discounted Residential Rate
 - Provides additional 500 kwhrs at lowest rate
 - Requires dependence on life support devices, paraplegic, quadriplegic or hemiplegic, Multiple Sclerosis or other special, approved needs
 - 354 accounts currently receiving the discount
 - Discount is approximately 8%
 - Total annual cost of \$134,032



Residential Discounts (cont)

- **SHARE (Single Household Alternative Rate for Energy)**
 - Available to any residential customer meeting specific income requirements
 - 1-2 persons \$22,000 household income
 - 3 persons \$25,900 household income
 - 4 persons \$31,500 household income
 - 1,671 accounts receiving discount
 - Discount approximately 30% from standard rate
 - Total annual cost of \$397,168



Residential Discounts (cont)

- Combined SHARE/Medical Rider
 - Currently 159 accounts receiving the discount
 - Discount approximately 36% from standard rate
 - Total cost of discounts \$50,448



Residential Summary

	Residential Discounts	Discount	Avg by Acct	# Accounts
EAFI	Fixed Income	\$4,606	\$51	90
EAMR	Medical	\$44,257	\$126	350
ED	SHARE (low income)	\$293,036	\$181	1,618
EDMR	SHARE Medical	\$39,470	\$256	154
EEMR	All-Electric Medical	\$360	\$90	4
EF	All-Electric SHARE (low income)	\$9,232	\$176	53
EFMR	All-Electric SHARE Medical	\$777	\$173	5
	Residential Discount Total	\$391,738		2,274



Residential Program Comparisons

Exhibit 2 - Comparison of Low Income and Medical Discount Programs

600 kWh Average

NCPA Members	Low Income	Discount	Medical	Discount	Medical Low Income	Discount
Alameda	Yes	25%	Yes	10%	Yes	15%
Biggs	No	0%	No	0%	No	0%
Gridley	No	0%	Yes	25%	No	0%
Healdsburg	Yes		Yes			
Lompoc	No	0%	Yes	10%	No	0%
Palo Alto	Yes	20%	No	0%	No	0%
Plumas-Sierra	No	0%	No	0%	No	0%
Roseville	Yes	15%	Yes	39%	No	0%
Ukiah	Yes	\$25	Yes	10%	No	0%
Lassen Municipal	No	0%	No	0%	No	0%
Redding	No	0%	Yes	25%	No	0%
Santa Clara	Yes	25%	Yes	25%	No	0%
Truckee Donner	No	0%	No	0%	No	0%
Turlock	Yes	15%	Yes	33%	No	0%

Rates as of 12/5/05

SMUD Yes 30% Yes 30% Yes 50%

50% on first
500 kWh

50% reduc



Straw Vote - Residential

- Staff requests non-binding policy direction to either:
 1. Retain the existing programs with approximately same level of discount applied to each
 2. Retain the existing programs with a reduced level of discount applied to each
 3. Retain the existing programs with an increased level of discount applied to each
 4. Eliminate the existing discount programs



Commercial Discount Programs

- G1 and G2 Community Benefits Incentive Discount
 - Eligible to Non-Profit entities (501(c)(3)) who are currently receiving Federal Community Block Grant Funds or have received such funds not more than two years prior of the current billing cycle
 - Eligible for a 30% discount from standard rate
 - Total of seven G2 and five G2 customers receiving the discount
 - Total Cost of \$25,272



Commercial Discount Programs (cont)

	Commercial	Discount	Avg by Acct	# Accounts
G1B	G1 Community Benefits Incentive	\$6,795	\$1,045	7
G2CB	G2 Community Benefits Incentive	\$25,272	\$5,616	5
	Commercial Discount Total	\$32,067		12

Commercial Discount Programs (cont)



Community Benefit Incentive Customers
Lodi Adopt A Child
Lodi Boys and Girls Club
Loel Foundation
Lodi House
Lodi Salvation Army
Hill House Museum

Straw Vote - Commercial



- Staff Requests a non-binding policy direction to either:
 1. Retain existing programs with approximately the same level of discount applied
 2. Retain existing programs with a reduced level of discount applied
 3. Eliminate the existing programs

Industrial Discount Programs



- **Economic Stimulus Credit**

- Provided to all customers in the G5 and I1 rate classes
- Credit is permanent part of rate
- Credit amounts to a 5% to 10% discount from standard rate
- Eleven accounts currently receive the discount
- Total cost of the discounts is \$801,334

Industrial Discount Programs (cont)



- **Individual Contracts**

- Eligibility offered on a case by case basis
- Seven accounts currently under contracts
- Total costs of contracts \$805,840

- **Staff recommends addressing further details of Individual Contracts and Economic Stimulus Rates as part of future discussions**